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SUBJECT: LOWER HOUSE OF PARLIAMENT PASSES SUPPLEMENTAL BUDGET TO
COVER HIGHER FUEL, GRAIN, AND SALARY COSTS

REFS: A) AMMAN 1754
B) AMMAN 1616
C) AMMAN 296
D) 07 AMMAN 4338
E) 07 AMMAN 1410

¶1. (SBU) Summary: The Jordanian Lower House of Parliament passed a 500 million JD (\$705 million) supplemental budget for 2008 in early June. The supplement includes funds for fuel subsidies provided in January and February, wheat and fodder subsidies, increased civil servant salaries, and some capital expenditures. The supplement will be partially funded by projected increases in tax revenue and supplemental foreign assistance expected from the U.S. and a 213 million JD (\$301) grant from Saudi Arabia. Jordan's budget supplement will increase the total 2008 budget deficit to 826 million JD (\$1.17 billion), or 6.4% of GDP, including foreign grant payments. Preliminary work on the 2009 budget has begun, and a draft will be submitted to the cabinet in August. End Summary.

Supplemental Budget Expenses

¶2. (SBU) Director General of the Budget, Dr. Ismail Zaghoul, told EconOffs that the Lower House of Parliament had recently passed a 500 million JD (\$706 million) supplemental budget with 466 million JD (\$658 million) in current expenditures and 34 million (\$48 million) in capital expenditures. The largest current expenditure is an additional 210 million JD (\$297 million) for wheat, barley, and fodder subsidies. These grain subsidies were originally budgeted at 165 million JD (\$233 million), but skyrocketing world grain prices necessitated an increase (ref B). Zaghoul was hopeful that no additional funds would be necessary for grain subsidies this year, noting that wheat prices have been falling recently. COMMENT: The Government of Jordan (GOJ) subsidizes bread prices, however, rising fuel prices and Jordan's reliance on imported wheat may further increase costs associated with bread subsidies. END COMMENT. An additional 6 million JD (\$9 million) was included in the supplemental budget for costs associated with hedging the price of wheat.

¶3. (SBU) The second largest expense category in the supplemental budget is 160 million JD (\$226 million) for fuel subsidies. While Jordan ended most fuel subsidies in February, 38 days of subsidized fuel at the beginning of the year cost the GOJ 75 million JD (\$106 million), based on an estimated world fuel price for the period at \$85 - \$87 per barrel (ref C). The GOJ also decided to maintain the subsidy of Liquefied Petroleum Gas used for home heating at a cost of 85 million JD (\$120 million) (ref A).

¶4. (U) An additional 90 million JD (\$127 million) has been identified for Jordan's social safety net. While the safety net was included in the 2008 budget at 301 million JD (\$425 million), Parliament requested and received higher than budgeted civil servant salary increases (ref C). The safety net package includes salary increases, pension increases, financial support for fuel for poor Jordanians, and National Aid increases that were offered to offset growing inflation, especially in light of the end of most fuel subsidies (ref C).

¶5. (SBU) Zaghloul said that 34 million JD (\$48 million) was also added to the capital expenditures budget, which will increase total budgeted capital expenditures to 1.16 billion JD (\$1.6 billion). He noted that historically Jordan has only been able to spend 85 - 90% of its budgeted capital expenditures. He further predicted that the 10-15% of unspent capital expenditures will partially offset the large budget deficit. Zaghloul also explained that 30 million (\$42 million) of the supplemental has been reserved for government purchase of expropriated land throughout Jordan's twelve governorates for road construction and other public works projects. An additional 4 million JD (\$6 million) has been budgeted for the Ministry of Municipal Affairs for poverty alleviation programs within the municipalities to meet the requirements of a European Union grant.

Revenues Also Grow

¶6. (SBU) Zaghloul explained that revenues are projected to grow an additional 398 million JD (\$562 million) over the original 4.5 billion JD (\$6.4 billion) estimate. 143 million JD (\$202 million)

will come from increased domestic revenues. Domestic revenue growth is split between 114 million JD (\$161 million) in tax revenue increases and 29 million JD (\$41 million) in non-tax revenues, which are assorted government fees. Tax projections have been raised because of higher than expected corporate profitability and because of inflation that has increased sales tax receipts. In addition, the GOJ has continued to receive revenues from the sale of gasoline (ref E). Zaghloul explained that when the government sets gasoline prices each month according to international prices, it factors in a sort of sales tax set at 4% for 90 octane and 16% for 95 octane.

¶7. (SBU) Jordan is also projecting 255 million JD (\$360 million) in additional foreign grants, and is extremely hopeful that a supplemental recently approved by the U.S. House, but not yet the Senate, will include ample funds for budgetary support. Jordan further expects 213 million JD (\$301 million) from Saudi Arabia. While Zaghloul acknowledged that Saudi Arabia has not paid previously promised monthly grants of \$21.9 million since late 2006, he was optimistic that these Saudi grants would come to fruition (ref D). NOTE: The Saudi grant is listed in the budget as "other foreign grants" to honor a Saudi request not to publish its name. END NOTE. Emirati newspaper Al-Khaleej reported June 24 that Jordanian Finance Minister Hamed al-Kasasbeh announced publicly the Saudi grant.

Budget Deficit Grows

¶8. (U) The supplemental budget of 500 million JD with 398 million in additional revenue will increase Jordan's budget deficit by 102 million JD (\$144 million) to 826 million JD (\$1.17 billion) after foreign grants. Zaghloul said that the original budget resulted in a deficit that equaled 5.4% of GDP and this new budget raises that amount to 6.4%. Excluding foreign grants, the budget deficit will be more than 1.5 billion JD (\$2.1 billion).

Next Steps: Work on the 2009 Budget Begins

¶9. (U) The 2008 supplemental budget will next be reviewed by the Senate and then endorsed by King Abdullah II. Historically this review and endorsement has occurred without changes. Although the GOJ's fiscal management framework requires that the government not spend any amounts beyond the budget, the supplemental budget is in

fact legitimizing expenditures already made on fuel subsidies and salary increases. The Lower House also continues to review the 2008 budgets of Jordan's financially independent government institutions. The budgets of these institutions are not part of the central budget, except for their direct allotments outlined in the original 2008 budget. These budgets were also not part of the supplement.

¶10. (SBU) Zaghloul noted that his department has begun work on the 2009 budget and a draft should be sent to the cabinet in August. 2008 marked the beginning of Jordan's use of three-year results-oriented budgeting (ROB) and three-year medium term forward forecasting (MTFF), which are both part of the USAID-funded Fiscal Reform Project. Zaghloul was hopeful that there would be no fuel subsidies in the 2009 budget, but he said that fodder discussions were still underway and these politically-sensitive subsidies could remain.

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